

**INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas**

**REGULATORY STATUTORY BASIS
FINANCIAL STATEMENTS
For the year ended June 30, 2013**

And

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

...KL...

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INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

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Karlin & Long, LLC
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON FINANCIAL STATEMENTS

Board of Education
Three Lakes Educational Cooperative
Lyndon, Kansas 66451

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of the Three Lakes Educational Cooperative, Lyndon, Kansas ("Municipality") as of and for the year ended June 30, 2013, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note 1 to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statement that is free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Three Lakes Educational Cooperative, Lyndon, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Three Lakes Educational Cooperative, Lyndon, Kansas as of June 30, 2013, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

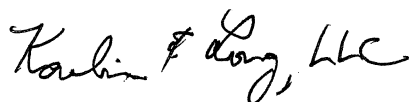
In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balance of the Three Lakes Educational Cooperative, Lyndon, Kansas (“Municipality”) as of June 30, 2013, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note 1.

In accordance with “Government Auditing Standards”, we have also issued our report dated September 6, 2013, on our consideration of the District’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control of financial reporting or on compliance. That report is an integral part of an audit performed in accordance with “Government Audit Standards” and should be considered in assessing the results of our audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming opinion on the 2013 fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances

(basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget and individual fund schedules of regulatory basis receipts and expenditures-actual and budget (Schedules 1, 2, 3, and 4 as listed in the table of contents) are presented for purposes of additional analysis and are not a required part of the 2012 basic financial statement, however are required to be presented under the provisions of the *Kansas Municipal Audit and Accounting Guide*. The accompany schedule of expenditures of federal awards is presented for purposes of additional analysis as required but U.S Office of Management and Budget Circular A-133, "Audits of States and Local Governments, and Non-Profit Organizations" and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2013 basic financial statement. The 2013 information has been subjected to the auditing procedures applied in the audit of the 2013 basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2013 basic financial statement or to the 2013 basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 2013 basic financial statement as a whole, on the basis of accounting described in Note 1.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC
Certified Public Accountants

Lenexa, KS
September 6, 2013

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE

Summary Statement of Receipts, Expenditures, and Unencumbered Cash
Regulatory Basis
For the Year Ended June 30, 2013

Funds	Beginning Unencumbered Cash Balance	Prior Year Cancelled Encumbrances	Cash Receipts	Expenditures	Ending Unencumbered Cash Balance	Add	
						Outstanding Encumbrances and Accounts Payable	Ending Cash Balance
Governmental Type Funds							
General	\$ 575,273	\$ 2,152	\$ 6,528,547	\$ 6,791,994	\$ 313,978	\$ 47,850	\$ 361,828
Special Purpose							
Inservice Education	0	15	28,748	28,763	0	206	206
Total Reporting Entity	\$ 575,273	\$ 2,167	\$ 6,557,295	\$ 6,820,757	\$ 313,978	\$ 48,056	\$ 362,034
Composition of Cash							
					Checking Accounts		\$ 361,242
					Savings Accounts		
					Petty Cash		792
					Certificates of Deposit		
					Total Reporting Entity		\$ 362,034

The notes to the financial statements are an integral part of this statement.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

Three Lakes Educational Cooperative Interlocal #620, Lyndon, Kansas is made up of six participating local unified school districts.

Financial Reporting Entity

Interlocal No. 620 is a municipal corporation governed by a six member board. The Cooperative as an entity has been defined to include, on a combined basis, (a) Interlocal No. 620 (b) organizations for which Interlocal No. 620 is financially accountable, and (c) other organizations for which the nature and significance of their relationship with Interlocal No. 620 are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. There are currently no organizations which meet the foregoing criteria for being combined in the Cooperatives's report.

Fund Descriptions

In governmental accounting, a fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The following types of funds comprise the financial activities of the District for the year 2013:

Governmental Funds

General Fund – the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose Funds – To account for the proceeds of specific revenue sources (other than major capital projects) that are restricted by law or administrative action to be expended for specified purposes.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The KMAAG regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows, other than those mentioned above.

The municipality has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the municipality to use the statutory basis of accounting.

Reimbursed Expenses

Reimbursed expenses are defined as repayments of amounts remitted on behalf of another party. All reimbursed expenses shown in the financial statements meet the following criteria: 1) the related disbursement was made in the current year on behalf of the payee, 2) the item paid for was directly identifiable as having been used by or provided to the payee, and 3) the amount of the reimbursed expense was directly tied to the amount of the original cash disbursement.

Budgetary Information

Kansas Statutes require that an annual operating budget be legally adopted for the general fund, special revenue funds (unless specifically exempted by statute), debt service funds, and enterprise funds. The statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper of the proposed budget and notice of public hearing on the budget on or before August 5th.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenues other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication, the hearing may be held and the governing body may amend the budget at that time. No budgets were amended during the year 2013.

The statutes permit transferring budgeted amounts between accounts within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison statements are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the city for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations (legal budget expenditure authority) lapse at year-end.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies (Continued)

Budgetary Information (Continued)

A legal operating budget is not required for capital projects funds and trust funds and the following special revenue funds:

Inservice Education Fund

Original appropriations are modified by supplemental appropriations and transfers among budget categories. The Boards of Education of participating Districts approve all significant changes.

All revenues and expenditures are estimated on a twelve-month basis. The tax levy required to finance the budget is on a calendar-year basis for the participating Districts. The Cooperative does not levy taxes directly to fund operations.

Inventories and Prepaid Expenses

Inventories and prepaid expenses which benefit future periods are recorded as expenditures.

Use of Estimates

The process of preparing financial statements requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates relate primarily to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

NOTE 2 – Deposits and Investments

Deposits

K.S.A. 9-1401 establishes the depositories which may be used by the government. The statute requires banks eligible to hold the government's funds have a main or branch bank in the county in which the government is located and the banks provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The government has no other policies that would further limit interest rate risk.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 2 – Deposits and Investments (Continued)

Deposits (Continued)

K.S.A. 12-1675 limits the government's investments of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The government has no investment policy that would further limit its investment choices.

Concentration of Credit Risk

State statutes place no limit on the amount the government may invest in any one issuer as long as the investments are adequately secured under K.S.A. 9-1402 and K.S.A. 9-1405.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the district's deposits may not be returned to it. State statutes require the district's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at June 30, 2013.

At June 30, 2013, the Cooperative's carrying amount of deposits was \$ 362,034 and the bank balance was \$ 787,643. The bank balance was held by one bank resulting in a concentration of credit risk. Of the bank balance, \$ 250,000 was covered by federal depository insurance and the balance was collateralized with securities held by the pledging financial institutions' agents in the government's name. For an investment, this is the risk that, in the event of the failure of the issuer or counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. State statutes require investments to be adequately secured.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 3 – Defined Benefit Pension Plan

Plan Description – Three Lakes Educational Cooperative participates in the Kansas Public Employees Retirement System (KPERS), a cost sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, et seq. KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas; Topeka, KS 66603) or by calling 1-888-275-5737.

Funding Policy – K.S.A. 74-4919 and K.S.A. 74-4921 establishes the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depending on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate of 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. Member-employees' contributions are withheld by their employer and paid to KPERS according to the provisions of section 414 (h) of the Internal Revenue Code.

The State of Kansas is required to contribute the statutory required employers share.

NOTE 4 – Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the county carries commercial insurance. There have been no significant reductions in coverage from prior years and settlements have not exceeded coverage in the past three years.

NOTE 5 – Stewardship, Compliance and Accountability

We noted no violations of Kansas statutes for the period under examination.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 6 – Compensated Absences

Under the terms of the Cooperative's personnel policy, Cooperative employees are granted annual, personal and sick leave in varying amounts depending on whether the employee is a classified or contracted worker.

Classified and contracted personnel accumulate sick leave at the rate of 10 days per year accumulative to 70 days and 1 day personal leave per year not accumulated. Contracted employees earn annual leave of 2 weeks per year. The Director earns annual leave of 4 weeks per year.

Terminated employees are not paid for unused vacation. They are paid for unused sick leave in excess of 70 days. No liability has been recorded for this amount.

NOTE 7 – Interfund Transactions

There were no operating transfers during the year ended June 30, 2013.

NOTE 8 – Other Post Employment Benefits

As provided by K.S.A. 12-5040, the local government allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the local government is subsidizing the retirees because each participant is charged a level of premium regardless of age. However, the cost of this subsidy has not been quantified in these statements.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the government makes health care available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured. There is no cost to the government under this program.

NOTE 9 – Contingency

The Cooperative receives federal and state grants for specific purposes that are subject to review and audit by federal and state agencies. Such audits could result in a request for reimbursement by federal and state agencies for expenditures disallowed under the terms and conditions of the appropriate agency. In the opinion of the Cooperative's management, such disallowances, if any, will not be significant to the Cooperative's financial statements.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO FINANCIAL STATEMENTS

NOTE 10 – Subsequent Events

Subsequent events for management's review have been evaluated through September 6, 2013. The date in the prior sentence is the date the financial statements were available to be issued.

Interlocal # 620 Three Lakes Education Cooperative, Lyndon, Kansas

Regulatory-Required

Supplementary Information

For the year ended June 30, 2013

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE

Summary of Expenditures - Actual and Budget
Regulatory Basis
For the Year Ended June 30, 2013

Funds	Certified Budget	Adjustments to		Adjustments for		Total Budget for Comparison	Expenditures Chargeable to Current Year	Variance - Over (Under)
		Comply with Legal Max		Qualifying Budget Credits				
Governmental Type Funds								
General	\$ 7,101,466	\$ 0	\$ 0	0	\$ 7,101,466	\$ 6,791,994	\$ (309,472)	
Special Revenue								
Inservise Education	23,500	0	0	0	23,500	28,763	5,263	

The notes to the financial statements are an integral part of this statement.

INTERLOCAL #620
 THREE LAKES EDUCATIONAL COOPERATIVE
 GENERAL FUND (SPECIAL EDUCATION)
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended June 30, 2013

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Intergovernmental Revenue			
Federal funds	\$ 1,061,576	\$ 1,087,920	\$ (26,344)
State funds	70,455	3,500	66,955
Charges for services	5,322,197	5,426,606	(104,409)
Interest income	1,282	1,000	282
Miscellaneous revenues	73,037	5,267	67,770
Operating transfers			0
Total Cash Receipts	<u>6,528,547</u>	<u>6,524,293</u>	<u>4,254</u>
EXPENDITURES			
Instruction	4,828,526	5,052,988	(224,462)
Student support services	1,194,424	1,231,321	(36,897)
Instruction support staff	250,867	260,890	(10,023)
General administration	391,386	409,017	(17,631)
School administration			0
Operations and maintenance	48,827	78,600	(29,773)
Student transportation services	77,964	68,650	9,314
Other support services			0
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>\$ 6,791,994</u>	<u>\$ 7,101,466</u>	<u>\$ (309,472)</u>
Receipts Over (Under) Expenditures	(263,447)		
Unencumbered Cash, Beginning	575,273		
Prior Year Cancelled Encumbrances	<u>2,152</u>		
Unencumbered Cash, Ending	<u>\$ 313,978</u>		

The notes to the financial statements are an integral part of this statement.

INTERLOCAL #620
 THREE LAKES EDUCATIONAL COOPERATIVE
 INSERVICE EDUCATION FUND
 Schedule of Receipts and Expenditures - Actual and Budget
 Regulatory Basis
 For the Year Ended June 30, 2013

	Actual	Budget	Variance- Over (Under)
CASH RECEIPTS			
Intergovernmental Revenue			
Federal funds	\$	\$	\$ 0
State funds			0
Charges for services	28,748	23,500	5,248
Interest income			0
Miscellaneous revenues			0
Operating transfers			0
Total Cash Receipts	<u>28,748</u>	<u>23,500</u>	<u>5,248</u>
EXPENDITURES			
Instruction			0
Student support services			0
Instruction support staff	28,763	23,500	5,263
General administration			0
School administration			0
Operations and maintenance			0
Student transportation services			0
Other support services			0
Operating transfers			0
Adjustment for qualifying budget credits			0
Total Expenditures	<u>28,763</u>	<u>\$ 23,500</u>	<u>\$ 5,263</u>
Receipts Over (Under) Expenditures	(15)		
Unencumbered Cash, Beginning	0		
Prior Year Cancelled Encumbrances	<u>15</u>		
Unencumbered Cash, Ending	<u>\$ 0</u>		

The notes to the financial statements are an integral part of this statement.

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Karlin & Long, LLC
Certified Public Accountants

Board of Education
Three Lakes Educational Cooperative
Lyndon, Kansas 66451

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133**

Report on Compliance for Each Major Federal Program

We have audited Three Lakes Educational Cooperative, Lyndon, Kansas' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Three Lakes Educational Cooperative, Lyndon, Kansas' major federal programs for the year ended June 30, 2013. Three Lakes Educational Cooperative, Lyndon, Kansas' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Three Lakes Educational Cooperative, Lyndon, Kansas' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Three Lakes Educational Cooperative, Lyndon, Kansas' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Three Lakes Educational Cooperative, Lyndon, Kansas' compliance.

Opinion on Each Major Federal Program

In our opinion, Kansas Three Lakes Educational Cooperative, Lyndon, Kansas' the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

Three Lakes Educational Cooperative, Lyndon, Kansas' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Three Lakes Educational Cooperative, Lyndon, Kansas' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Three Lakes Educational Cooperative, Lyndon, Kansas is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Three Lakes Educational Cooperative, Lyndon, Kansas internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Three Lakes Educational Cooperative, Lyndon, Kansas control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC
Certified Public Accountants

September 6, 2013

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Certified Public Accountants

Board of Education
Three Lakes Educational Cooperative
Lyndon, Kansas 66451

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL COMPLIANCE REPORTING AND OTHER MATTERS BASED ON
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of Three Lakes Educational Cooperative as of and for the year ended June 30, 2013, and have issued our report thereon dated September 12, 2013. In our report, our opinion was qualified due to the use of another comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Three Lakes Educational Cooperative, Lyndon, Kansas' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Three Lakes Educational Cooperative, Lyndon, Kansas' internal control. Accordingly, we do not express an opinion on the effectiveness of Three Lakes Educational Cooperative, Lyndon, Kansas' internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented, or detected and corrected on a timely basis.

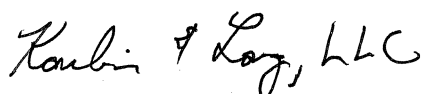
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Three Lakes Educational Cooperative's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Purpose of this Report

This report is intended solely for the information and use of the audit committee, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Karlin & Long, LLC".

Karlin & Long, LLC
Certified Public Accountants

September 6, 2013

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended June 30, 2013

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor Number	Federal Expenditures
<u>U.S. Department of Education</u>			
Passed through State Department of Education:			
State Grants (Part B Education Act)	84.027	*	\$ 782,396
Early Childhood Aid	84.173	*	37,246
Title XIX	93.778	*	241,934
<u>U.S. Department of Agriculture</u>			
Passed through State Department of Education:			
Meal Cost	10.558	*	<u>5,544</u>
Total Federal Assistance			<u><u>\$ 1,067,120</u></u>

* Not available

The accompanying notes to financial statements are an integral part of this statement.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2013

NOTE 1 – Basis of Accounting

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Interlocal #620 Three Lakes Educational Cooperative and is presented on the statutory basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Statutory Basis of Accounting – The statutory basis of accounting, as used in the preparation of these statutory basis financial statements, is designed to demonstrate compliance with the cash basis and budget laws of the State of Kansas. Cash receipts are recognized when the cash balance of a fund is increased. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments related to unperformed (executory) contracts for goods and services, and are usually evidenced by a purchase order or written contract. For an interfund transaction, a cash receipt is recorded in the fund receiving cash from another fund, and an expenditure would be charged in the fund from which the transfer is made.

Interlocal #620 Three Lakes Educational Cooperative has obtained a waiver from generally accepted accounting principles which allows the district to revert to statutory basis of accounting.

Departure from Generally Accepted Accounting Principles – The basis of accounting described above results in a financial statement presentation which shows cash receipts, cash disbursements, cash and unencumbered cash balances, and expenditures compared to budget. Balance sheets that would have shown noncash assets such as receivables, inventories, and prepaid expenses, liabilities such as deferred revenue and mature principal and interest payable, and reservations of the fund balance are not presented. Under generally accepted accounting principles, encumbrances are only recognized as a reservation of fund balance; encumbrances outstanding at year end do not constitute expenditures or liabilities. Consequently, the expenditures as reported do not present the cost of goods and services received during the fiscal year in accordance with generally accepted accounting principles.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2013

NOTE 1 – Basis of Accounting (ctd.)

Departure from Generally Accepted Account Principles (ctd.) - General fixed assets that account for the land, buildings, and equipment owned by the district are not presented in the financial statements. Also, general long-term debt such as general obligation bonds, temporary notes, and compensated absences are not presented in the financial statements.

NOTE 2 – Pass-Through Awards

Interlocal #620 Three Lakes Educational Cooperative receives certain federal awards in the form of pass-through awards from the State of Kansas. Such amounts received as pass-through awards are specifically identified on the Schedule of Expenditures of Federal Awards.

NOTE 3 – Major Programs

In accordance with OMB Circular A-133, major programs are determined using a risk-based approach. The State Grants (Part B Education Act) has been determined by the independent auditor to be a major program.

NOTE 4 – Contingencies

The Cooperative receives funds under various federal grant programs and such awards are to be expended in accordance with provisions of the various grants. Compliance with the grants is subject to audit by various government agencies which may impose sanctions in the event of non-compliance. Managements believes that they have complied with all aspects of the various grant provisions and the results of adjustments, if any, relating to such audits would not have any material financial impact.

INTERLOCAL #620
THREE LAKES EDUCATIONAL COOPERATIVE
Lyndon, Kansas

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the year ended June 30, 2013

A. Summary of Audit Results

1. The auditors' report expresses an Adverse opinion on the financial statements of Three Lakes Educational Cooperative in accordance with Generally Accepted Accounting Principles. The auditor's report expresses an Unqualified Opinion on the financial statements in accordance with the regulatory basis.
2. No reportable conditions relating to the audit of the general purpose financial statements are reported in the Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting Based on a Audit of Financial Statements Performed in accordance with Government Auditing Standards.
3. No instances of noncompliance material to the general purpose financial Statements of Three Lakes Educational Cooperative were disclosed during the audit.
4. The auditors' report on compliance for the major federal award programs for Three Lakes Educational Cooperative expresses an unqualified opinion on all major federal programs.
5. Audit findings relative to the major federal award programs for East Central Kansas Cooperative in Education are reported in this schedule.
6. The programs tested as major programs included:
Department of Education
State Grant (Part B Education Act)
CFDA No. 84.027
7. Three Lakes Educational Cooperative was not determined to be a low-risk auditee.
8. The threshold for distinguishing types A and B programs was \$300,000.

B. Findings – Financial Statement Audit

None

C. Findings and Questioned Costs – Major Federal Awards Programs Audit

Department of Education

State Grant (Part B Education Act)

CFDA No. 84.027

No findings of noncompliance or questioned costs were noted.

The accompanying notes to financial statements are an integral part of this statement